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*Central Fund of Canada Limited*



48th ANNUAL REPORT  
OCTOBER 31, 2009



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## ***The Role of Central Fund***

***To serve investors as "The Sound Monetary Fund".***

***To hold gold and silver bullion on a secure basis for the convenience of investors in the shares of Central Fund.***

### *Investment Policies & Restrictions*

The governing articles of Central Fund require that at least 75% of Central Fund's non-cash assets be invested in gold and silver bullion investments. This cannot be changed without shareholder approval.

The stated policy of the Board of Directors requires Central Fund to maintain a minimum of 90% of its net assets in gold and silver bullion of which at least 85% must be in physical form. On October 31, 2009, 97.4% of Central Fund's net assets were invested in gold and silver bullion. Of this, 99.4% was held in physical form and 0.6% was held in certificate form.

Central Fund's physical gold and silver bullion holdings may not be loaned, subjected to options or otherwise encumbered in any way.

### *Safeguards*

Central Fund's bullion is stored on an allocated and fully segregated basis in the underground vaults of the Canadian Imperial Bank of Commerce (the "Bank"), one of the major Canadian Banks, which insures its safekeeping. Additional insurance against destruction, disappearance or wrongful abstraction is carried by Central Fund on its physical gold and silver bullion holdings.

The Bank may only release any portion of Central Fund's physical bullion holdings upon receipt of an authorizing resolution of Central Fund's Board of Directors.

Bullion holdings and Bank vault security are inspected twice annually by Directors and/or Officers of Central Fund. On every occasion, inspections are required to be performed in the presence of both Central Fund's external auditors and Bank personnel.

Central Fund is subject to the extensive regulations and reporting requirements of the United States Securities and Exchange Commission, two stock exchanges and various Canadian provincial securities regulatory authorities.

### *Conveniences*

Central Fund's Class A shares are listed on the NYSE Amex (CEF) and on the Toronto Stock Exchange (CEF.A in Canadian dollars and CEF.U in U.S. dollars). Making a gold and silver bullion investment through Central Fund is as easy as calling one's stockbroker or investment dealer.

The stock exchange listings provide liquid markets for the Class A shares of Central Fund. The bid/ask spread is considerably less than the buying and selling prices of outright bullion purchases, especially for small transactions.

Unlike most other forms of gold and silver bullion investment, there are no ownership costs paid directly by the investor. All expenses of handling, storage and insurance of bullion are paid by Central Fund. As well, there are no bullion assay charges to a shareholder upon the sale, redemption or liquidation of the Class A shares of Central Fund.

## **Directors' 48th Report to Shareholders**

Central Fund of Canada Limited is a low-cost, convenient facility for the investment ownership of gold and silver bullion. At October 31, 2009, 97.4% of Central Fund's net assets consisted of unencumbered and segregated, passive, long-term holdings of gold and silver bullion.

Central Fund's Class A shares are listed on both the NYSE Amex and the Toronto Stock Exchange, and provide investors with a convenient precious metals investment alternative to direct investment in gold and silver bullion, with its high costs of buying and selling, including handling, recording, storage, insurance and assay charges at time of sale.

Central Fund is also a desirable alternative to bullion coins, the costs of which often include additional shipping and handling charges, as well as sales tax costs in many North American jurisdictions.

Central Fund's Class A shares serve as a stock exchange tradeable bullion proxy and qualify for various "regulated capital accounts" such as IRAs, Keoghs, RRSPs, and insurance, mutual and pension funds, where direct holdings of physical bullion may be restricted or are too cumbersome to handle, maintain and secure. The role of Central Fund is more thoroughly described on page 1.

Net assets increased by \$1,178.3 million or 97.9% during the year. Three public Class A share issues (the "share issues") were completed during the year. The net proceeds from these share issues totalled \$451.7 million and a total of 43,540,000 Class A shares were issued, bringing the total number of Class A shares outstanding to 196,007,713 at year end. Each of these share issues were priced at premiums to net asset value, assuring no dilution of existing Class A shareholders' equity interests. Details of these share issues are provided in Note 4 to the accompanying financial statements on page 10. The balance of the increase in net assets was attributable to the unrealized appreciation of holdings during the year resulting from increased gold and silver prices at October 31, 2009. This increase was nominally affected by expenses incurred during the year and the payment of the annual U.S. \$0.01 Class A share dividend at year end.

During fiscal 2009, the net asset value per Class A share, as reported in U.S. dollars, increased by 53.8% from \$7.90 to \$12.15. Gold prices increased by 42.3% and silver prices increased by 78.6% during the fiscal year. The net asset value per Class A share, as reported in Canadian dollars, while subject to the same factors described above, increased by a lesser rate, by 36.2% from \$9.61 to \$13.09 primarily due to a 11.4% decrease in the value of the U.S. dollar relative to the Canadian dollar.

Expenses as a percentage of the average of the month-end net assets during the 2009 fiscal year were 0.33% compared to 0.38% in 2008.

In accordance with the long-standing policy mandated by the Board of Directors, the Company employed the bulk of the proceeds from the Class A share issuances during the year to purchase additional gold and silver bullion in the ratio of approximately 50 ounces of silver to each 1 fine ounce of gold.

As a result of the share issue related bullion purchases during the year, there has been a fractional change in the respective holdings of physical bars as against bullion certificates. The comparative breakdown in physical bars at October 31, 2009 is: gold bars 99.3% (2008: 99.2%) and silver bars 99.6% (2008: 99.5%).

Securities regulatory authorities require that a detailed analysis of Central Fund's results be provided in a "Management's Discussion and Analysis of Financial Condition and Results of Operations". Since Central Fund has an Administrator and is a passive holding company with no operations or employees, a separate document entitled "Management's Discussion and Analysis" ("MD&A") is provided by Central Fund's Officers to meet regulatory requirements and should be read in conjunction with this Annual Report.

# *Central Fund of Canada Limited*

Gold and silver have a long demonstrated history as monetary instruments, officially and unofficially. Gold and silver derive intrinsic value from their unique characteristics of scarcity, consistency of quality, durability, resistance to corrosion, and convenience of use. Unlike fiat currencies, gold and silver do not fade away over the years with ever decreasing purchasing power. An ounce of gold or silver is a physical asset, not a negotiable or renegotiable promise, which most closely fits the true definition of "money" as a recognized medium of exchange and a store of value.

Prudence and history suggest that a portion of everyone's savings should be invested and held in physical gold and silver, or their secure share equivalent, as insurance for one's own ultimate financial and economic well-being.

Upon this philosophical foundation, Central Fund now enters its 49th year since inception and its 27th year of stewardship since its conversion in 1983 to "The Sound Monetary Fund". Central Fund holds only unencumbered, segregated, long-term, passive holdings of true money in the form of gold and silver bullion. Central Fund continues to fulfill its mandate of providing a sound, secure, low-cost, convenient, exchange-tradable monetary alternative for conservative investors in its role as "The Sound Monetary Fund".

Respectfully submitted,  
on behalf of the Board of Directors

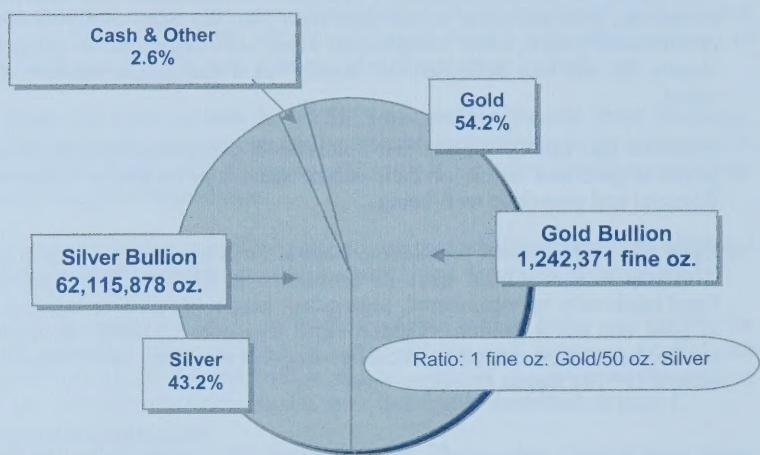


J.C. Stefan Spicer, President & CEO

December 14, 2009

# Central Fund of Canada Limited

## Net Asset Summary at October 31, 2009



## Comparative Net Asset Summary

As at October 31,

2007

	2009		2008		2007	
	U.S.\$	Cdn.\$	U.S.\$	Cdn.\$	U.S.\$	Cdn.\$
<b>Total net assets (in millions)</b>	\$ 2,382.3	2,566.7	1,204.0	1,464.7	1,237.5	1,175.5
<b>Net asset value per Class A share</b>	\$ 12.15	13.09	7.90	9.61	9.89	9.39
<b>Net assets:</b>						
Gold bullion		54.2%		58.9%		51.4%
Silver bullion		43.2%		37.4%		46.6%
Cash & other		2.6%		3.7%		2.0%
		100.0%		100.0%		100.0%
<b>Gold – per fine ounce</b>	<b>U.S. \$</b>	1,040.00		730.75		789.50
<b>Silver – per ounce</b>	<b>U.S. \$</b>	16.57		9.28		14.32
<b>Exchange Rate</b>	<b>\$1.00 U.S. = Cdn. \$</b>		1.0774		1.2165	0.9499

# *Central Fund of Canada Limited*

## **Management's Responsibility for Financial Reporting**

The accompanying financial statements of Central Fund of Canada Limited and all of the information in this Annual Report are the responsibility of management, being its senior executive officers (the "Senior Officers"), and have been approved by the Board of Directors (the "Board") and its Audit Committee.

The financial statements have been prepared by the Senior Officers in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, Senior Officers have chosen those they deem most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. The Senior Officers have determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The Senior Officers have prepared the financial information presented elsewhere in the Annual Report and have ensured that it is consistent with that in the financial statements.

Central Fund maintains systems of internal accounting and backup of records as well as high quality administrative and regulatory compliance controls for a reasonable cost. Hard copies of transactions and monthly statements are retained in the Company's files. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, retrievable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

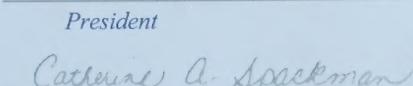
The Board is responsible for ensuring that the senior officers fulfil their responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit Committee.

The Audit Committee appointed by the Board consists solely of non-related and independent directors. In accordance with its charter, the Committee meets at least annually with the senior officers and the external auditors to discuss: the independence of the external auditors; the scope of the annual audit; the audit plan; access granted to the Corporation's records; co-operation of the Senior Officers in the audit and review function; the need for an internal audit function; the financial reporting process; related internal controls; the quality and adequacy of the Corporation's or Administrator's accounting and financial personnel; and other resources and financial risk management to satisfy itself that each party is properly discharging its responsibilities. The Committee also reviews the Annual Report, the Annual Information Form, the annual and quarterly financial statements, Management's Discussion and Analysis and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also reviews the external auditors' remuneration and considers, for review by the Board and approval by the shareholders, the re-appointment and terms of engagement and, in appropriate circumstances, the replacement of the external auditors. It also pre-approves all non-audit services proposed to be provided by the external auditors. The charter of the Committee is set out on Central Fund's website.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders. Ernst & Young LLP has full and free access to the Committee. Ernst & Young LLP has audited Central Fund of Canada Limited's internal control over financial reporting based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).



President



Catherine A. Spackman

Treasurer

December 14, 2009

*Central Fund of Canada Limited*

**Statement of Net Assets  
(expressed in U.S. dollars)**

	<i>As at October 31,</i>	
	<i>2009</i>	<i>2008</i>
<b>Net assets:</b>		
Gold bullion, at market (Note 2)	\$1,292,065,170	709,313,709
Silver bullion, at market (Note 2)	1,029,260,117	450,336,352
Cash	2,918,749	1,470,435
Short-term deposits (Note 3)	61,171,225	45,498,877
Prepaid bullion insurance	62,500	62,500
Interest receivable and other	162,775	200,462
	2,385,640,536	1,206,882,335
Accrued liabilities (Note 6)	(1,338,221)	(1,358,756)
Dividends payable (Notes 4 and 5)	(1,960,177)	(1,524,677)
<b>Net assets representing shareholders' equity</b>	<b>\$2,382,342,138</b>	<b>1,203,998,902</b>
 <b>Represented by:</b>		
Capital stock (Note 4)	\$1,493,341,163	1,041,676,329
Contributed surplus (Note 5)	-	4,693,182
Retained earnings inclusive of unrealized appreciation (depreciation) of holdings	889,000,975	157,629,391
	\$2,382,342,138	1,203,998,902
 <b>Net asset value per share (Notes 1(c)(ii) and 9):</b>		
Class A shares	\$ 12.15	7.90
Common shares	\$ 9.15	4.90
 <b>Exchange rate at year end:</b>	<b>U.S. \$1.00 = Cdn.</b>	<b>1.0774</b>
 <b>Net asset value per share expressed in Canadian dollars</b>		
Class A shares	\$ 13.09	9.61
Common shares	\$ 9.86	5.96

See accompanying notes to financial statements.

*On behalf of the Board:*

"Douglas E. Heagle"  
Director

"Philip M. Spicer"  
Director

# *Central Fund of Canada Limited*

## **Statement of Income (Loss) (expressed in U.S. dollars)**

	<i>Years ended October 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
<b>Income:</b>			
Interest	\$ 353,104	958,973	1,097,708
Change in unrealized appreciation (depreciation) of holdings	734,541,009	(348,028,081)	221,489,568
	<b>734,894,113</b>	<b>(347,069,108)</b>	<b>222,587,276</b>
<b>Expenses:</b>			
Administration fees (Note 6)	3,893,726	3,223,989	2,558,506
Safekeeping, insurance and bank charges	1,710,872	1,540,018	1,165,156
Shareholder information	170,248	165,971	146,884
Directors' fees and expenses	134,361	139,070	129,047
Stock exchange fees	128,330	129,801	92,419
Auditors' fees	76,418	110,178	117,967
Registrar and transfer agent fees	75,145	77,569	73,728
Legal fees (Note 6)	64,194	113,904	87,556
Miscellaneous	1,169	1,198	1,493
Foreign currency exchange loss	-1,071	1,851	5,345
<b>Total expenses</b>	<b>6,255,534</b>	<b>5,503,549</b>	<b>4,378,101</b>
<b>Net income (loss) inclusive of the change in unrealized appreciation (depreciation) of holdings</b>	<b>\$728,638,579</b>	<b>(352,572,657)</b>	<b>218,209,175</b>
<b>Basic and diluted net income (loss) per share (Note 1 (c)(i)):</b>			
Class A shares	\$ 4.24	(2.58)	1.94
Common shares	\$ 4.23	(2.59)	1.93

## **Statement of Changes in Net Assets (expressed in U.S. dollars)**

	<i>Years ended October 31,</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
<b>Net assets at beginning of year</b>	<b>\$1,203,998,902</b>	<b>1,237,519,123</b>	<b>836,328,606</b>
<b>Add (deduct):</b>			
Net income (loss)	728,638,579	(352,572,657)	218,209,175
Increase in Class A capital (Note 4)	451,664,834	320,577,113	184,232,687
Dividends on Class A shares	(1,960,177)	(1,524,677)	(1,251,345)
Increase (decrease) in net assets during the year	1,178,343,236	(33,520,221)	401,190,517
<b>Net assets at end of year</b>	<b>\$2,382,342,138</b>	<b>1,203,998,902</b>	<b>1,237,519,123</b>

See accompanying notes to financial statements.

# Central Fund of Canada Limited

## Statement of Shareholders' Equity (expressed in U.S. dollars)

	Years ended October 31,		
	2009	2008	2007
<b>Capital stock (Note 4):</b>			
196,007,713 (2008: 152,467,713; 2007: 125,134,532)			
Class A retractable shares issued	\$1,493,321,705	1,041,656,871	721,079,758
40,000 Common shares issued	19,458	19,458	19,458
	1,493,341,163	1,041,676,329	721,099,216
<b>Contributed surplus:</b>			
Balance at beginning of year	4,693,182	10,762,435	15,294,173
Transfer to retained earnings (Note 5)	(4,693,182)	(6,069,253)	(4,531,738)
Balance at end of year	-	4,693,182	10,762,435
<b>Retained earnings:</b>			
Balance at beginning of year	157,629,391	505,657,472	284,167,904
Net income (loss)	728,638,579	(352,572,657)	218,209,175
Dividends on Class A shares	(1,960,177)	(1,524,677)	(1,251,345)
Transfer from contributed surplus (Note 5)	884,307,793 4,693,182	151,560,138 6,069,253	501,125,734 4,531,738
Balance at end of year	889,000,975	157,629,391	505,657,472
<b>Shareholders' equity</b>	<b>\$2,382,342,138</b>	<b>1,203,998,902</b>	<b>1,237,519,123</b>

See accompanying notes to financial statements.

## Notes to Financial Statements

October 31, 2009, 2008 and 2007

(amounts expressed in U.S. dollars unless otherwise stated)

### 1. Summary of significant accounting policies:

Central Fund of Canada Limited ("Central Fund" or the "Company") was incorporated under the Business Corporations Act, 1961 (Ontario), and was continued under the Business Corporations Act (Alberta) on April 5, 1990. The Company is a specialized, passive holding company with most of its assets held in gold and silver bullion.

Effective November 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures, as to which see Forward-looking and Market Risk Observations within the Management's Discussion & Analysis, and Section 3863, Financial Instruments - Presentation. The adoption of these standards did not affect the Company's net assets or its results of operations.

The Company's accounting policies, which conform with Canadian and U.S. generally accepted accounting principles ("GAAP"), are summarized below:

#### (a) Foreign exchange translation:

Canadian dollar cash deposits are translated at the rates of exchange prevailing at year end. Any difference between the year-end exchange rate and the exchange rate at the time such deposits were acquired is recorded in the statement of income (loss) as a foreign currency exchange loss or gain.

# *Central Fund of Canada Limited*

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Purchases and sales of holdings traded in foreign currencies and the related income are translated at the rates of exchange prevailing when the transactions occur. Market values of holdings quoted in foreign currencies are translated at the rates of exchange prevailing at year end.

(b) Holdings:

Bullion is valued at market value. Gold bullion is valued at the afternoon London fixing and silver bullion is valued at the daily London fixing.

The change in unrealized appreciation/depreciation of holdings represents the change in the difference between the market value and average cost of holdings.

Transactions are accounted for on the trade date. Realized gains and losses and unrealized appreciation and depreciation are calculated on the average cost basis.

Dividend income is recorded on the ex-dividend date.

(c) Per share amounts:

(i) Net income or loss per share:

The calculation of net income or loss per share is based on the weighted average number of Class A and Common shares outstanding during the year. The net income per Common share is reduced by U.S. \$0.01 as the Class A shares are entitled to receive a U.S. \$0.01 per share preferential non-cumulative annual dividend. The remaining net income for the year is attributed equally to each Class A share and Common share, without preference or distinction.

(ii) Net asset value per share:

The calculation of net asset value per share is based on the number of Class A and Common shares outstanding at the end of the year and gives effect to the Class A shares' entitlement to U.S. \$3.00 per share on liquidation, before any remaining net assets are attributed equally to each Class A share and Common share then outstanding.

(d) Adoption of new accounting standards:

Commencing November 1, 2008, the Company adopted FASB No. 157, Fair Value Measurements ("FASB 157"), to increase consistency and comparability in fair value measurements. FASB 157 includes a definition of fair value as well as a framework for measuring fair value.

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes.

Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

The Company's policy and practice is at all times to utilize only broadly quoted market values (Level 1) when valuing its assets. The adoption of FASB 157 and the amendments of 3862 did not have any impact.

(e) Future accounting policy:

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Public companies and trusts will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the

# *Central Fund of Canada Limited*

conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of the fiscal year to commence on November 1, 2011 and for which the current and comparative information will be prepared under IFRS. The Company is developing a changeover plan to meet the timetable published by the CICA for changeover to IFRS. The plan will cover such key elements as the impact of IFRS on the Company's accounting policies and measurement of assets, liabilities, revenues and expenses including its proposed method of implementation of a change in policy, if any, and the nature and extent of any additional note disclosures in the financial statements of the Company.

## 2. Gold and silver bullion:

<i>Holdings at October 31:</i>			<i>2009</i>	<i>2008</i>	<i>2007</i>
<b>Gold bullion:</b>					
Fine ounces	- 400 oz. bars		1,221,055	949,936	786,595
	- 100 oz. bars		12,889	12,889	12,889
	- bank certificates		8,427	7,840	5,685
			<u>1,242,371</u>	<u>970,665</u>	<u>805,169</u>
Cost	-	\$	774,629,675	526,252,976	370,416,530
Market	- per fine ounce	\$	1,040.00	730.75	789.50
Market value	-	\$	1,292,065,170	709,313,709	635,681,207
<b>Silver bullion:</b>					
Ounces	- 1,000 oz. bars		61,860,327	48,272,073	40,007,184
	- bank certificates		255,551	255,551	245,572
			<u>62,115,878</u>	<u>48,527,624</u>	<u>40,252,756</u>
Cost	-	\$	654,686,930	475,723,982	336,022,132
Market	- per ounce	\$	16.57	9.28	14.32
Market value	-	\$	1,029,260,117	450,336,352	576,419,467

## 3. Short-term deposits:

As at October 31, 2009, the Company held four U.S. dollar fixed bank deposits with a Schedule 1 Canadian bank for a total of \$55,300,000 with rates ranging from 0.05% to 0.50% and maturity dates from November 25 to December 17, 2009. The Company held one Treasury Bill in the amount of \$5,499,945 at a rate of 0.01% with a maturity date of December 3, 2009. The Company also held one Canadian dollar flexible GIC deposit with a Schedule 1 Canadian bank in the amount of \$371,280 (Cdn. \$400,000) at a rate of 1.40% with a maturity date of January 29, 2010.

As at October 31, 2008, the Company held four U.S. dollar fixed bank deposits with a Schedule 1 Canadian bank for a total of \$27,500,000 with rates ranging from 0.50% to 2.45% and maturity dates from November 10, to December 5, 2008. The Company also held two Treasury Bills: \$7,999,079 at a rate of 0.50% with a maturity date of December 1, 2008 and \$9,999,798 at a rate of 0.45% with a maturity date of December 4, 2008.

## 4. Capital stock:

The authorized share capital consists of an unlimited number of Class A non-voting shares without nominal or par value and 50,000 Common shares without nominal or par value.

Since October 1989, holders of the Company's Class A shares have had the option to require the Company to redeem their Class A shares on the last day of each fiscal quarter of the Company (each a "Retraction Date") for 80% of the Company's net asset value per Class A share on the Retraction Date (as calculated at the relevant date and in accordance with note 1(c)(ii)). Class A shareholders who wish to exercise this retraction right must submit their written redemption request at least 90 days prior to the desired Retraction Date. Since adoption of

# *Central Fund of Canada Limited*

this redemption feature, no shareholders have submitted redemption requests. The Articles of the Company provide for the suspension of redemptions during specified unusual circumstances, such as suspensions of normal trading on certain stock exchanges or the London bullion market, or to comply with applicable laws or regulations.

The holders of the Class A shares are entitled to receive a preferential, non-cumulative annual dividend of U.S. \$0.01 per share. Any further dividends declared are to be paid rateably on the Class A shares and Common shares then outstanding, without preference or distinction. The Company has adopted a policy that any dividends declared shall be paid to shareholders of record at the close of business each October 31, with payment of such dividends being made during November of the same year.

On August 13, 2009, the Company, through a public offering, issued 11,040,000 Class A shares for proceeds of \$126,120,960 net of underwriting fees of \$5,255,040. Costs relating to this public offering were approximately \$600,000 and net proceeds were approximately \$125,520,960. The Company used the net proceeds from this public offering to purchase 69,342 fine ounces of gold at a cost of \$67,404,584 and 3,467,086 ounces of silver at a cost of \$52,595,695, both in physical bar form. The balance of \$5,520,681 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On April 16, 2009, the Company, through a public offering, issued 20,000,000 Class A shares for proceeds of \$201,600,000 net of underwriting fees of \$8,400,000. Costs relating to this public offering were \$466,716 and net proceeds were \$201,133,284. The Company used the net proceeds from this public offering to purchase 123,700 fine ounces of gold at a cost of \$109,909,145 and 6,188,000 ounces of silver at a cost of \$78,088,690, both in physical bar form. The balance of \$13,135,449 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On February 3, 2009, the Company, through a public offering, issued 12,500,000 Class A shares for proceeds of \$124,800,000 net of underwriting fees of \$5,200,000. Costs relating to this public offering were \$367,494 and net proceeds were \$124,432,506. The Company used the net proceeds from this public offering to purchase 78,663 fine ounces of gold at a cost of \$71,062,969 and 3,933,169 ounces of silver at a cost of \$48,278,562, both in physical bar form. The balance of \$5,090,975 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On September 26, 2008, the Company, through a public offering, issued 11,900,000 Class A shares for proceeds of \$123,379,200 net of underwriting fees of \$5,140,800. Costs relating to this public offering were \$248,827 and net proceeds were \$123,130,373. The Company used the net proceeds from this public offering to purchase 72,683 fine ounces of gold at a cost of \$65,229,358 and 3,634,168 ounces of silver at a cost of \$49,161,208, both in physical bar form. The balance of \$8,739,807 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On July 22, 2008, the Company, through a public offering, issued 11,115,000 Class A shares for proceeds of \$144,050,400 net of underwriting fees of \$6,002,100. Costs relating to this public offering were \$474,571 and net proceeds were \$143,575,829. The Company used the net proceeds from this public offering to purchase 67,397 fine ounces of gold at a cost of \$66,287,788 and 3,369,900 ounces of silver at a cost of \$66,039,619, both in physical bar form. The balance of \$11,248,422 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On March 5, 2008, the Company, through a public offering, issued 4,318,181 Class A shares for proceeds of \$54,719,990 net of underwriting fees of \$2,280,000. Costs relating to this public offering were \$398,518 and net proceeds were \$54,321,472. The Company used the net proceeds from this public offering to purchase 25,416 fine ounces of gold at a cost of \$24,319,300 and 1,270,800 ounces of silver at a cost of \$24,501,024, both in physical bar form. The balance of \$5,501,148 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On September 19, 2007, the Company, through a public offering, issued 11,840,000 Class A shares for proceeds of \$107,298,816 net of underwriting fees of \$4,470,784. Costs relating to this public offering were \$499,041 and net proceeds were \$106,799,775. The Company used the net proceeds from this public offering to purchase 72,453 fine ounces of gold at a cost of \$51,792,317 and 3,622,702 ounces of silver at a cost of \$46,850,239, both in physical bar form. The balance of \$8,157,219 was retained by the Company in interest-bearing cash deposits for working capital purposes.

On December 8, 2006, the Company, through a public offering, issued 8,640,000 Class A shares for proceeds of \$77,967,360 net of underwriting fees of \$3,248,640. Costs relating to this public offering were \$573,436 and net proceeds were \$77,393,924. The Company used the net proceeds from this public offering

# Central Fund of Canada Limited

to purchase 52,690 fine ounces of gold at a cost of \$33,932,360 and 2,634,540 ounces of silver at a cost of \$36,817,696, both in physical bar form. The balance of \$6,643,868 was retained by the Company in interest-bearing cash deposits for working capital purposes.

The stated capital and recorded capital of the Company as at and for the years ended October 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
<b>Stated capital</b>			
Class A shares 196,007,713 (2008: 152,467,713; 2007: 125,134,532)	\$1,507,325,380	1,054,804,420	732,654,830
Share issue costs	(14,003,675)	(13,147,549)	(11,575,072)
<b>Recorded capital</b>			
- Class A shares	1,493,321,705	1,041,656,871	721,079,758
- 40,000 Common shares	19,458	19,458	19,458
<b>Capital stock</b>	<b>\$1,493,341,163</b>	<b>1,041,676,329</b>	<b>721,099,216</b>
<b>Weighted average Class A and Common shares outstanding</b>	<b>174,838,124</b>	<b>132,234,241</b>	<b>113,853,546</b>

## 5. Contributed surplus and retained earnings:

In 1985, the shareholders authorized a reduction in stated capital which resulted in the creation of a contributed surplus account to facilitate payment of ongoing annual dividends. Each year the Board of Directors authorized a transfer from contributed surplus to retained earnings of an amount equal to net losses before the change in unrealized appreciation (depreciation) of holdings and payment of the Class A shares' stated dividend per share. During the last quarter of fiscal 2009, the balance available for transfers from contributed surplus to retained earnings was drawn down to zero by utilizing a portion of the net loss before the change in unrealized appreciation of holdings (\$2,733,005), effectively eliminating this account. The Company does not intend to authorize further reductions in stated capital for purposes of re-establishing a balance in contributed surplus. Rather, it will discontinue transferring amounts from contributed surplus to retained earnings. Accordingly, \$4,693,182, \$6,069,253 and \$4,531,738 were transferred from contributed surplus to retained earnings on October 31, 2009, 2008 and 2007, respectively. The balance of contributed surplus was nil at October 31, 2009.

	2009	2008	2007
<i>Transfer from contributed surplus to retained earnings relating to:</i>			
Net loss before the change in unrealized appreciation (depreciation) of holdings	\$ 2,733,005	4,544,576	3,280,393
Add: Dividend on Class A shares	1,960,177	1,524,677	1,251,345
	<b>\$ 4,693,182</b>	<b>6,069,253</b>	<b>4,531,738</b>

This change has not affected the net asset value of the Company.

## 6. Related party transactions and fees:

Central Fund has no employees. It is party to an Administrative and Consulting Agreement with The Central Group Alberta Ltd., which is related to the Company through four of its officers and directors. The Central Group Alberta Ltd., which acts as Administrator, has operating offices with employees, advisors and consultants who provide administrative and consulting services to the Company. For such services, the Company pays an administrative and consulting fee, payable monthly, at least until October 31, 2015, at an annual rate of: 0.30% on the first \$400 million of total net assets; 0.20% on the next \$600 million of total net assets; and 0.15% on total net assets exceeding one billion dollars.

Included in accrued liabilities at October 31, 2009, is \$391,394 (2008: \$236,749) which relates to the October administration fee payable to the Administrator.

# Central Fund of Canada Limited

For the year ended October 31, 2009, the Company incurred fees totaling \$56,251 (2008: \$105,828, 2007: \$77,383) to legal firms of which two of the Company's directors are partners, and \$3,893,726 (2008: \$3,223,989; 2007 \$2,558,506) to the Administrator, The Central Group Alberta Ltd. The Board of Directors is of the opinion that these services were undertaken under the same or better terms and conditions as services with unrelated parties.

## 7. Income taxes:

Although Central Fund is not a mutual fund as designated by securities regulators, the Company qualifies and intends to continue to qualify as a mutual fund corporation under the *Income Tax Act* (Canada) for capital gains distributions and redemption purposes only. As a result thereof, and after deduction of issue costs in computing taxable income, the Company does not anticipate that it will be subject to any material non-refundable income tax liability.

The Company has net capital losses of \$1,709,000 available to offset future net capital gains realized for which no benefit has been recognized in these financial statements

The Company is a long-term, passive holder of gold and silver bullion and believes that, as a mutual fund corporation for capital gains distributions and redemption purposes only, should realized gains upon a disposition of bullion holdings arise in the future, these gains should be treated as capital gains for tax purposes and should be distributable as capital gains to shareholders. Deferred income tax liabilities resulting from unrealized capital appreciation of holdings are offset by the refundable mechanisms available to the Company. The Canada Revenue Agency has, however, expressed its opinion that gains (or losses) of mutual fund trusts resulting from transactions in commodities should generally be treated for tax purposes as ordinary income rather than as capital gains, although the treatment in each particular case remains a question of fact to be determined having regard to all the circumstances.

## 8. Management of financial risks:

The Company has risk management policies and procedures in place to identify risks related to financial instruments. The objectives of these policies and procedures are to identify and mitigate risk. The Company's compliance with these policies and procedures is monitored by the Senior Officers, the Audit Committee and the Board of Directors of the Company. Market fluctuations are unpredictable and outside the control of the Company. New risk factors may emerge from time to time and it is not possible for the Company to predict all such risk factors.

### *Price risk*

It is possible to predict the impact that changes in the market prices of gold and silver will have on the net asset value per Class A share. Assuming as a constant exchange rate the rate which existed on October 31, 2009 of \$1.0774 Cdn. for each U.S. dollar together with the holdings of gold and silver bullion which existed on that date, a 10% change in the price of gold would increase or decrease the net asset value per share by approximately \$0.66 per share or Cdn. \$0.71 per share. A 10% change in the price of silver would increase or decrease the net asset value per share by approximately \$0.52 per share or Cdn. \$0.57 per share. If both gold and silver prices were to change by 10% simultaneously in the same direction, the net asset value per share would increase or decrease by approximately \$1.18 per share or Cdn. \$1.28 per share.

### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

When expressed in U.S. dollars, Central Fund's net asset value per Class A share is largely unaffected by changes in the U.S./Canadian dollar exchange rate due to the fact that nearly all of Central Fund's net assets are priced in U.S. dollars. However, changes in the value of the U.S. dollar relative to the Canadian dollar have a direct impact on net assets as expressed in Canadian dollars. This arises because over 99% of Central Fund's net assets were denominated in U.S. dollars as at October 31, 2009, including gold and silver bullion and some U.S. cash. An increase or decrease in the value of the Canadian dollar versus the U.S. dollar means that the aforementioned U.S. dollar denominated net assets would be worth less or more when expressed in Canadian dollar terms.

It is also possible to predict the impact that changes in the value of the U.S. dollar relative to the Canadian dollar will have on the net asset value per Class A share as reported in Canadian dollars. As previously mentioned, over 99% of Central Fund's net assets are expressed in U.S. dollars. Assuming constant gold and

# *Central Fund of Canada Limited*

silver prices, a 10% increase or decrease in the value of the U.S. dollar relative to the Canadian dollar would change the net asset value per share as expressed in Canadian dollars in the same direction by approximately the same percentage.

The impact of a 5% strengthening or weakening of the Canadian dollar against the U.S. dollar applied to balances outstanding at October 31, 2009 would not have had any material impact on the net income for the year ended October 31, 2009, assuming that all other variables, in particular interest rates, remained constant.

#### *Credit risk*

Credit risk on financial instruments is the risk of loss occurring as a result of the default of an issuer on its obligation to Central Fund. Credit risk is monitored on an ongoing basis and is managed by the Company only dealing with issuers that are believed to be creditworthy. As at October 31, 2009, other than short-term deposits, Central Fund had no investment in fixed income securities.

#### *Liquidity risk*

Although the Administrator regards all of Central Fund's assets as liquid, a liquidity risk may be the risk that the Company will not be able to generate adequate cash resources to fulfill its payment obligations. Central Fund traditionally has maintained sufficient cash reserves to enable it to pay expenses and dividends on its Class A shares. Furthermore, over 97% of its net assets are in the form of gold and silver bullion which is readily tradeable in an active market and can be sold if necessary to fund those payments referred to above.

## **9. Financial highlights:**

	<b>Years ended October 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><i>Class A per share performance:</i></b>					
<b>Net asset value per share at beginning of period</b>	\$7.90	\$9.89	\$7.99	\$5.74	\$5.27
Net loss before unrealized appreciation (depreciation) of holdings	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)
Unrealized appreciation (depreciation) of holdings - gold	1.91	(0.62)	1.21	0.86	0.30
Unrealized appreciation (depreciation) of holdings - silver	2.29	(2.01)	0.72	1.42	0.19
<b>Total increase (decrease) <sup>(1)</sup></b>	<b>4.17</b>	<b>(2.66)</b>	<b>1.90</b>	<b>2.25</b>	<b>0.47</b>
<b>Net asset value per share at end of year</b>	<b>\$12.15</b>	<b>\$7.90</b>	<b>\$9.89</b>	<b>\$7.99</b>	<b>\$5.74</b>
<b>Total return</b>	<b>53.8%</b>	<b>(20.1)%</b>	<b>23.8%</b>	<b>39.2%</b>	<b>8.9%</b>
<b><i>Percentages and supplemental data:</i></b>					
<b>Ratio as a percentage of average net assets:</b>					
Expenses	0.33%	0.38%	0.43%	0.48%	0.51%
Net loss before unrealized appreciation (depreciation) of holdings	0.32%	0.31%	0.32%	0.41%	0.45%

The ratios are based on the weighted average number of shares during the year, except for the net asset value which is based on actual number of outstanding shares at the relevant time.

<sup>(1)</sup> This table is not meant to be a reconciliation of opening to ending net asset value.

## **10. Capital stewardship:**

The capital of the Company is represented by the issued and outstanding Class A and Common shares and the net asset value attributable to participating shareholders. The Directors direct the Administrator to administer the capital of the Company in accordance with the Company's stated objectives and restrictions, as stipulated in the Articles of Incorporation as amended, while maintaining sufficient cash to pay expenses of maintaining the Company and to meet demands for redemption (if any). The Company does not have any externally imposed capital requirements.

# *Central Fund of Canada Limited*

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## **11. Canadian and United States generally accepted accounting principles:**

The accounting policies followed in these financial statements, which are in accordance with Canadian GAAP, are consistent with those that would apply under U.S. GAAP except for the following classification difference in the Statement of Net Assets. This U.S. GAAP classification difference has no effect on the reported net asset value per Class A share.

Subject to the terms and conditions described in note 4 to these financial statements, the Class A shares are redeemable at the option of the holder. This redemption feature is the basis for the U.S. GAAP classification difference. The likelihood or probability of such redemption is not considered, nor is the fact that the Class A shares participate fully and proportionately with the common shares in changes in the value of the equity ownership of the Company. Since adoption of this redemption feature in 1989, no holders of Class A shares have tendered their shares to the Company for redemption.

Under Canadian GAAP these shares are considered to be permanent equity and are classified in shareholders' equity in the Statement of Net Assets. Under U.S. GAAP, the redemption value of these shares is calculated in accordance with the provisions of the redemption feature and classified outside of shareholders' equity as mezzanine equity for each reporting period, with changes in the redemption value from the beginning of each reporting period to the end of that reporting period being charged (or credited) to retained earnings.

## **12. Subsequent event:**

On November 17, 2009, the Company, through a public offering, issued 16,975,000 Class A shares for proceeds of \$220,973,760 net of underwriting fees of \$9,207,240. Costs relating to this public offering were approximately \$600,000 and net proceeds were approximately \$220,373,760. The Company used the net proceeds from this public offering to purchase 104,132 fine ounces of gold at a cost of \$115,186,924 and 5,206,600 ounces of silver at a cost of \$91,688,905, both in physical bar form. The balance of \$13,497,931 was retained by the Company in interest-bearing cash deposits for working capital purposes.

## *Auditors' Report to the Shareholders*

We have audited the statements of net assets of Central Fund of Canada Limited as at October 31, 2009 and 2008 and the statements of income (loss), changes in net assets and shareholders' equity for each of the years in the three-year period ended October 31, 2009. These financial statements are the responsibility of the Company's Senior Executive Officers. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 and the results of its operations and the changes in its net assets and shareholders' equity for each of the years in the three-year period ended October 31, 2009 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of October 31, 2009 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 14, 2009 expressed an unqualified opinion.

Toronto, Canada  
December 14, 2009

*Erat & Young LLP*

Chartered Accountants  
Licensed Public Accountants

# *Central Fund of Canada Limited*

## ***Report of Independent Registered Public Accounting Firm***

### ***The Shareholders of Central Fund of Canada Limited***

We have audited Central Fund of Canada Limited's internal control over financial reporting as of October 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). Central Fund of Canada Limited's Senior Executive Officers are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in this Annual Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of senior officers and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Central Fund of Canada Limited maintained, in all material respects, effective internal control over financial reporting as of October 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of net assets of Central Fund of Canada Limited as of October 31, 2009 and 2008, and the related statements of income (loss), changes in net assets and shareholders' equity for each of the three years in the period ended October 31, 2009 and our report dated December 14, 2009 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Toronto, Canada  
December 14, 2009

Chartered Accountants  
Licensed Public Accountants

# *Central Fund of Canada Limited*

## **Class A Shares Stock Exchange Listings**

	<u>Electronic Ticker Symbol</u>	<u>Newspaper Quote Symbol</u>
NYSE Amex	CEF	CFCda
The Toronto Stock Exchange	CEF.A in CDN\$ CEF.U in US\$	CFund A

## **Net Asset Value Information**

The net asset value per Class A share is calculated daily and is available at [www.centralfund.com](http://www.centralfund.com); or by calling the Administrator's Investor Inquiries Office at (905) 648-7878; or, by sending an email to [info@centralfund.com](mailto:info@centralfund.com). The Thursday net asset value is published on a regular basis in several financial newspapers among which are the following:

### In the United States (figures published in U.S. \$):

- *Barrons*
- *New York Times*
- *Wall Street Journal*

### In Canada (figures published in Canadian \$):

- *National Post: Financial Post Section*
- *The Globe and Mail: Report on Business*

## **Form 40-F**

Central Fund's S.E.C. Form 40-F is posted on EDGAR (Electronic Data Gathering, Analysis and Retrieval System) at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml). Copies are available, free of charge, by contacting Central Fund of Canada Limited or its Administrator.

## **Postings on SEDAR** (System for Electronic Document Analysis and Retrieval)

Annual & Quarterly Reports  
Management's Discussion and Analysis  
Annual Information Forms  
Prospectuses  
Material Change Reports  
Press Releases  
Proxies and Executive's Certifications  
Board and Committee Charters

All of these filings may be found at [www.sedar.com](http://www.sedar.com)

## Corporate Information

### Directors

John S. Elder, Q.C.  
Douglas E. Heagle (A)(C)(I)(L)  
Ian M.T. McAvity (C)(E)(I)  
Michael A. Parente CMA, CFP (A)(I)  
Robert R. Sale (A)(C)(I)  
Dale R. Spackman Q.C. (E)  
J.C. Stefan Spicer (E)  
Philip M. Spicer (E)

### Officers

Philip M. Spicer, Chairman  
Dale R. Spackman, Q.C., Vice-Chairman  
J.C. Stefan Spicer, President & CEO  
Catherine A. Spackman CMA, Treasurer & CFO  
Teresa E. Popper, Assistant Treasurer  
John S. Elder, Q.C., Secretary

### Consultant

Malcolm A. Taschereau

- (A) - Member of the Audit Committee  
(C) - Member of the Corporate Governance Committee  
(E) - Member of the Executive Committee  
(I) - May be regarded as an independent director under Canadian securities administrators' guidelines.  
(L) - Lead Director

*Upon the retirement of Mr. Malcolm A. Taschereau from the Board of Directors at the Annual Meeting on February 23, 2009, he consented to being retained by the Administrator to continue his excellent twenty five years of past service on the Board as an ongoing Consultant for Central Fund.*

### Administrator

The Central Group Alberta Ltd.  
Calgary, Alberta

### Auditors

Ernst & Young LLP  
Canada

### Banker

Canadian Imperial Bank of Commerce

### Custodian

Canadian Imperial Bank of Commerce

### Legal Counsel

Dorsey & Whitney LLP, Toronto  
Fraser Milner Casgrain LLP, Toronto  
Parlee McLaws LLP, Calgary

### Registrar and Transfer Agents

CIBC Mellon Trust Company at Calgary,  
Montreal, Toronto and Vancouver  
Mellon Investor Services LLC, New York

### Share Ownership Certificates

Certificates of share ownership registered in shareholders' names at their own addresses for delivery to them for their own safekeeping may be obtained upon the request of holders and payment of any applicable fees to the relevant Registrar and Transfer Agent of the Company.

### Head Office

Hallmark Estates  
Suite 805, 1323-15th Avenue S.W.  
Calgary, Alberta T3C 0X8  
Telephone (403) 228-5861  
Fax (403) 228-2222

### Shareholder and Investor Inquiries

Administrator, P.O. Box 10050  
Ancaster, Ontario L9K 1P2  
Telephone (905) 648-7878  
Fax (905) 648-4196

Website: [www.centralfund.com](http://www.centralfund.com)  
E-mail: [info@centralfund.com](mailto:info@centralfund.com)







**Management's Discussion and Analysis ("MD&A") of December 14, 2009**

This MD&A is published to meet securities regulatory requirements and is disseminated in both print and electronic form in conjunction with the Annual Report of Central Fund of Canada Limited ("Central Fund" or the "Company") for the fiscal year ended on October 31, 2009. Readers are directed to the Directors' 48th Report to Shareholders on pages 2 and 3 and to the Notes to Financial Statements on pages 8 to 15 which fully disclose accounting policies, share capital, related party administrative and consulting agreement fees and other matters presented within Central Fund's 2009 Annual Report.

The following discussion is based on Central Fund's financial statements which are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). These principles are substantially the same as United States generally accepted accounting principles.

Throughout this discussion, all currency amounts are in United States dollars.

***Administrator, Administrative and Consulting Fees***

Central Fund has no employees. It is party to an Administrative and Consulting Agreement with The Central Group Alberta Ltd., which is related to the Company through four of its Officers and Directors. The Central Group Alberta Ltd., which acts as Administrator, has operating offices with employees, advisors and consultants who provide administrative and consulting services to the Company. For such services, the Company pays an administrative and consulting fee, payable monthly, at an annual rate for at least until October 31, 2015 of: 0.30% on the first \$400 million of total net assets; 0.20% on the next \$600 million of total net assets; and 0.15% on total net assets exceeding one billion dollars.

***Results of Operations - Changes in Net Assets***

Changes in net assets, as reported in U.S. dollars from period to period, are primarily a result of share offerings, the changing market prices of gold and silver, and the proportion of each held by the Company. Also, changes in the value of the U.S. dollar relative to the Canadian dollar will have an impact on net assets when reported in Canadian dollars. The following table summarizes the changes in: net assets in both U.S. and Canadian dollars; gold and silver prices; and the exchange rates between U.S. and Canadian dollars:

	Years ended October 31					
	2009		2008		2007	
	U.S.\$	Cdn. \$	U.S.\$	Cdn. \$	U.S.\$	Cdn. \$
Change in unrealized appreciation (depreciation) of holdings (in millions)	\$734.5	\$586.1	\$(348.0)	\$(40.8)	\$221.5	\$47.9
Net income (loss) for the year (in millions) inclusive of the change in unrealized appreciation (depreciation)	\$728.6	\$571.3	\$(352.6)	\$(34.4)	\$218.2	\$40.5
Net income (loss) per Class A share	\$4.24	\$3.27	\$(2.58)	\$(0.26)	\$1.94	\$0.36
Change in net assets from prior year (in millions)	\$1,178.3	\$1,102.1	\$(33.5)	\$289.1	\$401.2	\$236.6
% change from prior year	97.9%	75.3%	(2.7)%	24.6%	48.0%	25.2%
Change in net assets per Class A share from prior year	\$4.25	\$3.48	\$(1.99)	\$0.22	\$1.90	\$0.42
% change per Class A share from prior year	53.8%	36.2%	(20.1)%	2.3%	23.8%	4.7%
Gold price (U.S. \$ per fine ounce)	\$1,040.00		\$730.75		\$789.50	
% change from prior year	42.3%		(7.4)%		30.8%	
Silver price (U.S. \$ per ounce)	\$16.57		\$9.28		\$14.32	
% change from prior year	78.6%		(35.2)%		18.5%	
Exchange rate: \$1.00 U.S. = Cdn.	\$1.0774		\$1.2165		\$0.9499	
% change from prior year	(11.4)%		28.1%		(15.4)%	

# *Central Fund of Canada Limited*

In fiscal 2009, net assets as reported in U.S. dollars increased by \$1,178.3 million or 97.9%. Three public offerings were completed during the year as described in Note 4 to the financial statements. Treasury shares were issued in these offerings at a premium over the net asset value per Class A share at the time of pricing, such that there was no dilution of the interests of existing Class A shareholders. The net proceeds from the share issues, inclusive of share issue costs reductions from fiscal 2008 (\$578,084), totalled \$451,664,834, of which \$248,376,698 was used to purchase 271,705 fine ounces of gold bullion, and \$178,962,947 was used to purchase 13,588,255 ounces of silver bullion, primarily in physical bar form. The balance of the proceeds, \$23,747,105, was retained in interest-bearing cash deposits for working capital purposes.

The balance of the increase in net assets of \$726.6 million was primarily attributable to the unrealized appreciation of holdings during the year resulting from increases in the prices of gold (42.3%) and silver (78.6%) during the year.

The increase in net assets described above was nominally affected by the one cent year-end dividend paid on each of the Class A shares. Though subject to the same effects as described above, net assets reported in Canadian dollars increased by 75.3% due to the 11.4% decrease in the U.S. dollar relative to the Canadian dollar.

The following table summarizes the changes in net assets in U.S. dollars, gold and silver prices, and the exchange rate between U.S. and Canadian dollars on a quarterly basis for the 2009 fiscal year:

	<i>Quarter ended (in US\$)</i>			
	<u>October 31</u>	<u>July 31</u>	<u>April 30</u>	<u>January 31</u>
<b>2009</b>				
<i>Change in unrealized appreciation (depreciation) of holdings (in millions)</i>	\$300.4	\$124.1	\$(29.9)	\$339.9
<i>Net income (loss) for the quarter (in millions)</i>	\$298.7	\$122.6	\$(31.4)	\$338.7
<i>Net income (loss) per Class A share</i>	\$1.55	\$0.66	\$(0.20)	\$2.23
<i>Total Net Assets (in millions)</i>	\$2,382.3	\$1,959.4	\$1,836.9	\$1,542.8
<i>Changes in net assets from prior quarter (in millions)</i>	\$422.9	\$122.5	\$294.1	\$338.8
<i>% change from prior quarter</i>	21.6%	6.7%	19.1%	28.1%
<i>Change in net assets per Class A share from prior quarter</i>	\$1.56	\$0.66	\$(0.19)	\$2.22
<i>% change per Class A share from prior quarter</i>	14.7%	6.6%	(1.9)%	28.1%
<i>Gold price</i>	\$1,040.00	\$939.00	\$883.25	\$919.50
<i>% change from prior quarter</i>	10.8%	6.3%	(3.9)%	25.8%
<i>Silver Price</i>	\$16.57	\$13.63	\$12.63	\$12.51
<i>% change from prior quarter</i>	21.6%	7.9%	1.0%	34.8%
<i>Exchange rate: \$1.00 U.S. = Cdn.</i>	\$1.0774	\$1.0790	\$1.1940	\$1.2364
<i>% change from prior quarter</i>	(0.1)%	(9.6)%	(3.4)%	1.6%

In fiscal 2008, net assets as reported in U.S. dollars decreased by \$33.5 million or 2.7%. Three public offerings were completed during the year as described in Note 4 to the financial statements. Treasury shares were issued in these offerings at a premium over the net asset value per Class A share at the time of pricing, such that there was no dilution of the interests of existing Class A shareholders. The net proceeds from the 2008 share issues, inclusive of share issue costs reductions from fiscal 2007 (\$127,523), totalled \$320,577,113, of which \$155,836,446 was used to purchase 165,496 fine ounces of gold bullion, and \$139,701,851 was used to purchase 8,274,868 ounces of silver bullion, primarily in physical bar form. The balance of the proceeds, \$24,911,293, was retained in interest-bearing cash deposits for working capital purposes.

The balance of the decrease in net assets of \$354.1 million during fiscal 2008 was primarily attributable to the decreases in the prices of gold (7.4%) and silver (35.2%) during the year.

The decrease in net assets described above was nominally affected by the one cent year-end dividend paid on each of the Class A shares. Though subject to the same effects as described above, net assets reported in Canadian dollars increased by 24.6% due to the 28.1% increase in the U.S. dollar relative to the Canadian dollar.

# Central Fund of Canada Limited

The following table summarizes the changes in net assets in U.S. dollars, gold and silver prices, and the exchange rate between U.S. and Canadian dollars on a quarterly basis for the 2008 fiscal year:

	<i>Quarter ended (in US\$)</i>			
	<u>October 31</u>	<u>July 31</u>	<u>April 30</u>	<u>January 31</u>
<b>2008</b>				
<i>Change in unrealized appreciation (depreciation) of holdings (in millions)</i>	\$(563.8)	\$69.4	\$(58.7)	\$205.1
<i>Net income (loss) for the quarter (in millions)</i>	\$(564.9)	\$68.2	\$(60.0)	\$204.1
<i>Net income (loss) per Class A share</i>	\$(4.27)	\$0.53	\$(0.47)	\$1.63
<i>Total Net Assets (in millions)</i>	\$1,204.0	\$1,647.6	\$1,435.9	\$1,441.7
<i>Changes in net assets from prior quarter (in millions)</i>	\$443.6	\$211.8	\$(5.8)	\$204.1
<i>% change from prior quarter</i>	(26.9)%	14.7%	0.4%	16.5%
<i>Change in net assets per Class A share from prior quarter</i>	\$(3.82)	\$0.63	\$(0.43)	\$1.63
<i>% change per Class A share from prior quarter</i>	(32.6)%	5.7%	(3.7)%	16.5%
<i>Gold price</i>	\$730.75	\$918.00	\$871.00	\$923.25
<i>% change from prior quarter</i>	(20.4)%	5.4%	(5.7)%	16.9%
<i>Silver Price</i>	\$9.28	\$17.48	\$16.47	\$16.74
<i>% change from prior quarter</i>	(46.9)%	6.1%	(1.6)%	16.9%
<i>Exchange rate:      \$1.00 U.S. = Cdn.</i>	\$1.2165	\$1.0257	\$1.0095	\$1.0022
<i>% change from prior quarter</i>	18.6%	1.6%	0.7%	5.5%

In fiscal 2007, net assets as reported in U.S. dollars increased by \$401.2 million or 48.0%. A portion of this increase was the result of two public offerings completed during the year as described in Note 4 to the financial statements. Treasury shares were issued in these offerings at a premium over the net asset value per Class A share at the time of pricing, such that there was no dilution of the interests of existing Class A shareholders. The net proceeds from the share issues totalled \$184,193,699, of which \$85,724,677 was used to purchase 125,143 fine ounces of gold bullion, and \$83,667,935 was used to purchase 6,257,242 ounces of silver bullion, primarily in physical bar form. The balance of the proceeds, \$14,801,087, was retained in interest-bearing cash deposits for working capital purposes.

The balance of the increase in net assets of \$217.1 million during fiscal 2007 was primarily attributable to increases in the prices of gold (30.8%) and silver (18.5%) during the year.

The increase in net assets described above was nominally affected by the loss before unrealized appreciation of holdings during the year and the one cent year-end dividend paid on each of the Class A shares. Though subject to the same effects as described above, net assets reported in Canadian dollars increased by a lesser amount of 25.2% due to the 15.4% decrease in the U.S. dollar relative to the Canadian dollar.

The following table summarizes the changes in net assets in U.S. dollars, gold and silver prices, and the exchange rate between U.S. and Canadian dollars on a quarterly basis for the 2007 fiscal year:

	<i>Quarter ended (in US\$)</i>			
	<u>October 31</u>	<u>July 31</u>	<u>April 30</u>	<u>January 31</u>
<b>2007</b>				
<i>Change in unrealized appreciation (depreciation) of holdings (in millions)</i>	\$152.2	\$(29.3)	\$24.6	\$74.0
<i>Net income (loss) for the quarter (in millions)</i>	\$151.4	\$(30.1)	\$23.7	\$73.2
<i>Net income (loss) per Class A share</i>	\$1.33	\$(0.27)	\$0.21	\$0.67
<i>Total Net Assets (in millions)</i>	\$1,237.5	\$980.7	\$1,010.8	\$987.1

# *Central Fund of Canada Limited*

	<i>Quarter ended (in US\$)</i>			
	<i>October 31</i>	<i>July 31</i>	<i>April 30</i>	<i>January 31</i>
<b>2007 continued</b>				
<i>Changes in net assets from prior quarter (in millions)</i>	\$256.8	\$(30.1)	\$23.7	\$150.8
<i>% change from prior quarter</i>	26.2%	(3.0)%	2.4%	18.0%
<i>Change in net assets per Class A share from prior quarter</i>	\$1.24	\$(0.27)	\$0.21	\$0.72
<i>% change per Class A share from prior quarter</i>	14.3%	(3.0)%	2.4%	9.0%
<i>Gold price</i>	\$789.50	\$665.50	\$677.00	\$650.50
<i>% change from prior quarter</i>	18.6%	(1.7)%	4.1%	7.7%
<i>Silver Price</i>	\$14.32	\$12.93	\$13.50	\$13.36
<i>% change from prior quarter</i>	10.8%	(4.2)%	1.0%	10.6%
<i>Exchange rate: \$1.00 U.S. = Cdn.</i>	\$0.9499	\$1.0657	\$1.1067	\$1.1792
<i>% change from prior quarter</i>	(10.9)%	(3.7)%	(6.1)%	5.0%

## **Financial Results - Net Income**

Central Fund's earned income objective is secondary to its investment objective of holding almost all of its net assets in gold and silver bullion. Generally, Central Fund only seeks to maintain adequate cash reserves to enable it to pay expenses and Class A share dividends. Because gold and silver bullion are not loaned to generate income, Central Fund's realized income is a nominal percentage of its net assets. However, the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 18, requires Central Fund to record unrealized appreciation (depreciation) of holdings in income. Accordingly, for the last three fiscal years, Central Fund has reported net income (loss) as required. Central Fund expects to generate cash flow from its holdings of cash equivalents, and will sell bullion certificates only if necessary to replenish cash reserves.

### *Fiscal 2009 Compared to Fiscal 2008*

Net income of \$728,638,579 was reported for the 2009 fiscal year compared to the 2008 net loss of \$352,572,657. The increase in net income for 2009 was primarily the result of unrealized appreciation of holdings during the year. Notwithstanding the increase in cash and cash equivalents, interest income decreased compared to the prior year as interest rates on interest-bearing cash deposits were significantly lower.

Expenses increased by 13.7% over the prior year. Year end net assets were increased from the prior year due to increases in the prices of gold and silver, combined with the proceeds received from the three public offerings that were completed during the year. This increase in net assets impacted upon several of the expense categories that are a function of net asset levels. Administration fees, which are calculated monthly based on net assets at each month-end, increased during the year as a direct result of the higher level of net assets attributable to the factors mentioned above. Safekeeping fees have increased during the year for the same reasons.

As a result of administrative disciplines and increases in net assets, expenses as a percentage of average month-end net assets for the 2009 fiscal year decreased to 0.33% compared to 0.38% in 2008.

### *Fiscal 2008 Compared to Fiscal 2007*

A net loss of \$352,572,657 was reported for the 2008 fiscal year compared to the 2007 net income of \$218,209,175. The prime component of this decrease was the result of unrealized depreciation of holdings during the year. In spite of the increase in cash and cash equivalents, interest income decreased compared to the prior year as interest rates on interest-bearing cash deposits were significantly lower.

Expenses increased by 25.7% over the prior year. While year end net assets levels were decreased from the prior year due to decreases in the prices of gold and silver, three public offerings were completed during the year and their respective net proceeds contributed to and enhanced net assets during the year thereby having an impact on several expense categories. Administration fees, which are calculated monthly based on net assets at each month-end, increased during the year as a direct result of the higher level of net assets attributable to the factors mentioned above. Safekeeping fees have significantly increased during the year for the same reasons. Legal expenses increased as a result of changes to the compliance requirements for the Company as stipulated by Canadian and U.S. Securities Regulators.

# *Central Fund of Canada Limited*

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Expenses as a percentage of average month-end net assets for the 2008 fiscal year decreased to 0.38% compared to 0.43% in 2007.

## ***Outstanding Shares***

There were 196,007,713 Class A retractable shares and 40,000 Common shares issued and outstanding at October 31, 2009.

Subsequent to October 31, 2009, on November 17, 2009, the Company, through a public offering, issued 16,975,000 Class A shares for proceeds of \$220,973,760 net of underwriting fees of \$9,207,240. Costs relating to this public offering were approximately \$600,000 and net proceeds were approximately \$220,373,760. The Company used the net proceeds from this public offering to purchase 104,132 fine ounces of gold at a cost of \$115,186,924 and 5,206,600 ounces of silver at a cost of \$91,688,905, both in physical bar form. The balance of \$13,497,931 was retained by the Company in interest-bearing cash deposits for working capital purposes.

## ***Forward – Looking and Market Risk Observations***

Central Fund is almost entirely invested in pure refined gold and silver bullion in international bar form. Therefore, the principal factors affecting the price of its shares are factors which affect the currency prices of gold and silver, which are beyond the Company's control. However, the Company believes that such factors have a lesser impact on the shares of Central Fund than on the shares of gold producers, as gold producers have considerable inherent operational costs and other risks resulting in more volatile share prices of such producers. Central Fund's net assets are denominated in U.S. dollars. As at October 31, 2009, the Company's assets were made up of 54.2% gold bullion, 43.2% silver bullion, 2.6% cash and interest-bearing deposits and other working capital amounts. The Company does not engage in any leasing, lending or hedging activities involving these assets, so the net asset value of the shares will depend on, and typically fluctuate with, the price fluctuations of such assets. Gold and silver bullion are traded internationally and their market prices may be affected by a variety of unpredictable, international, economic, monetary and political considerations. Macroeconomic considerations include: expectations of future rates of inflation; the strength or weakness of, and confidence in, the U.S. dollar, the currency in which the price of gold is generally quoted, and the relative value of other currencies; interest rates; and global or regional political or economic events, including banking crises. Political factors, including market interventions and international conflicts, may also affect gold and silver prices.

### ***Price risk***

It is possible to predict the impact that changes in the market prices of gold and silver will have on the net asset value per Class A share. Assuming as a constant exchange rate the rate which existed on October 31, 2009 of \$1.0774 Cdn. for each U.S. dollar together with the holdings of gold and silver bullion which existed on that date, a 10% change in the price of gold would increase or decrease the net asset value per share by approximately \$0.66 per share or Cdn. \$0.71 per share. A 10% change in the price of silver would increase or decrease the net asset value per share by approximately \$0.52 per share or Cdn. \$0.57 per share. If both gold and silver prices were to change by 10% simultaneously in the same direction, the net asset value per share would increase or decrease by approximately \$1.18 per share or Cdn. \$1.28 per share.

### ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

When expressed in U.S. dollars, Central Fund's net asset value per Class A share is largely unaffected by changes in the U.S./Canadian dollar exchange rate due to the fact that nearly all of Central Fund's net assets are priced in U.S. dollars. However, changes in the value of the U.S. dollar relative to the Canadian dollar have a direct impact on net assets as expressed in Canadian dollars. This arises because over 99% of Central Fund's net assets were denominated in U.S. dollars as at October 31, 2009, including gold and silver bullion and some U.S. cash. An increase or decrease in the value of the Canadian dollar versus the U.S. dollar means that the aforementioned U.S. dollar denominated net assets would be worth less or more when expressed in Canadian dollar terms.

It is also possible to predict the impact that changes in the value of the U.S. dollar relative to the Canadian dollar will have on the net asset value per Class A share as reported in Canadian dollars. As previously mentioned, over 99% of Central Fund's net assets are denominated in U.S. dollars. Assuming constant gold and silver prices, a 10% increase or decrease in the value of the U.S. dollar relative to the Canadian dollar would change the net asset value per share as expressed in Canadian dollars in the same direction by approximately the same percentage.

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The impact of a 5% strengthening or weakening of the Canadian dollar against the U.S. dollar applied to balances outstanding at October 31, 2009 would not have had any material impact on the net income for the period ended October 31, 2009, assuming that all other variables, in particular interest rates, remained constant.

## *Credit risk*

Credit risk on financial instruments is the risk of loss occurring as a result of the default of an issuer on its obligation to Central Fund. Credit risk is monitored on an ongoing basis and is managed by the Company only dealing with issuers that are believed to be creditworthy. As at October 31, 2009, other than short-term deposits, Central Fund had no investment in fixed income securities.

## *Liquidity risk*

Although the Administrator regards all of Central Fund's assets as highly liquid, liquidity risk might be regarded as the risk that the Company will not be able to generate adequate cash resources to fulfill its payment obligations. Central Fund traditionally has maintained sufficient cash reserves to enable it to pay expenses and dividends on its Class A shares. Furthermore, over 97% of its net assets are in the form of gold and silver bullion which is readily tradeable in an active market and can be sold if necessary to fund those payments referred to above.

## *Liquidity and Capital Resources*

All of Central Fund's assets are liquid. The Company's objective is to hold cash reserves that generate some income primarily to be applied to pay expenses and Class A share dividends. At October 31, 2009, Central Fund's cash reserves, including cash equivalents, were \$64,089,974. The comparable figure at October 31, 2008 was \$46,969,312. The ability of Central Fund to have sufficient cash for expenses and dividend payments, and to meet demands for redemption (if any), is primarily dependent upon its ability to realize cash flow from its cash equivalents. Should Central Fund not have sufficient cash to meet its needs, portions of Central Fund's bullion holdings may be sold to fund dividend payments, provide working capital and pay for redemptions (if any) of Class A shares. Sales of bullion holdings could result in Central Fund realizing capital gains or losses. Central Fund qualifies as a Mutual Fund Corporation for share redemption purposes only but is not a mutual fund as defined by securities regulators. As a Mutual Fund Corporation, any Canadian tax payable by Central Fund to the extent that it relates to taxable capital gains is fully refundable when the realized gains are distributed to shareholders. Should Central Fund not qualify as a Mutual Fund Corporation at any time in the future, Central Fund would have to pay non-refundable tax on such capital gains, if any. Payments for such distributions or tax would be a further use of Central Fund's cash resources. During the fiscal year ended October 31, 2009, Central Fund's cash reserves increased by \$17,120,662 from those held at October 31, 2008. The primary sources and uses of cash were as follows:

### *Sources of Cash*

The primary inflow of cash was the cash portion retained from the proceeds of the issuances of Class A shares which totalled \$451,664,834 net of share issue costs of \$856,127. An additional \$424,552 represents interest generated on short-term securities.

### *Uses of Cash*

The primary outflow of cash during the year involved the purchase of gold and silver bullion with the proceeds from the share issues referred to above. Central Fund paid \$248,376,698 to purchase 271,705 fine ounces of gold and \$178,962,947 to purchase 13,588,255 ounces of silver during the year.

Central Fund paid total expenses of \$6,104,401 during the 2009 fiscal year, \$1,358,756 of which related to amounts which had been accrued at October 31, 2008 and which were reflected in the accounts of that year. Other cash outflows include \$1,524,677 paid in the 2009 fiscal year with respect to Central Fund's October 31, 2008 Class A share dividend.

Central Fund's Board of Directors made the decision to build up cash reserves by retaining in cash and cash equivalents a portion of the proceeds from share issues in recent years. Consistent with this objective, \$23,747,105 of the \$451,664,834 received upon the issuance of Class A shares was placed into interest-bearing cash deposits. These amounts are to be used to pay expenses and dividend payments, and to meet demands for redemption of shares (if any). The Board of Directors is mindful of the need to make these payments each year, while continuing to meet the Company's stated objective of holding the maximum amount the Board of Directors deems reasonable in the form of gold and silver bullion. Although it could readily generate cash by liquidating a small portion of its bullion holdings, Central Fund seeks to avoid any liquidation in the foreseeable future. However, were cash reserves

# *Central Fund of Canada Limited*

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to become too low, and in the absence of other sources of capital at the time, liquidation of a portion of the bullion holdings could be made which would result in gains or losses on such holdings.

### **Future Accounting Policy**

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Public companies and trusts will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of the fiscal year to commence on November 1, 2011 and for which the current and comparative information will be prepared under IFRS. The Company is developing a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants for changeover to IFRS. The plan will cover such key elements as the impact of IFRS on the Company's accounting policies, including its proposed method of implementation of a change in policy, if any, and the nature and extent of any additional note disclosures in the financial statements of the Company.

### **Disclosure Controls and Procedures**

Senior Executive Officers have ensured that there are disclosure controls and procedures that provide reasonable assurance that material information relating to the Company is disclosed on a timely basis. They believe these disclosure controls and procedures have been effective during the year ended October 31, 2009.

### **Inflation**

Because Central Fund's financial statements are prepared on a market price basis, the impact of inflation and resulting currency price changes of gold and silver are reflected in these financial statements.

### **Non-Market Risk Factors**

Prospective investors should consider carefully the following factors relating to the business and primary assets of Central Fund before deciding whether to purchase shares.

### **United States Federal Income Tax Considerations**

The Company is advised that it is likely that the Company is a "passive foreign investment company" for United States federal tax purposes. Under the passive foreign investment company rules, the tax treatment of the Class A non-voting shares is very complex, uncertain and, in some cases, potentially unfavorable to United States Persons. Central Fund is advised that US Investors filing Qualified Election Forms in respect of their investments in Central Fund should qualify for capital gains tax treatment, such current US rate being 15%. Each United States person who acquires Class A shares, whether from the Company or in the market, is strongly urged to consult their own tax advisor.

This MD&A is dated December 14, 2009.

